

Message Text

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INFO OCT-01 EUR-25 EA-11 ADP-00 AID-20 CEA-02 CIAE-00

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OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08 SS-15

NSC-10 L-03 H-03 PRS-01 PA-03 USIA-15 AGR-20 TAR-02

XMB-07 RSR-01 /216 W

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 2917

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AMEMBASSY PARIS

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

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TREASURY DEPT WASHDC PRIORITY

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TREASURY PASS S.Y. CROSS AND WIDMAN

E.O. 11652:N/A

TAGS: EFIN, US, FR

SUBJECT: VIEWS OF FRENCH FINANCE MINISTER GISCARD

D'ESTAING ON INTERNATIONAL MONETARY REFORM

1. FOLLOWING ARE QUOTES ON INTERNATIONAL MONETARY REFORM, ROLE OF GOLD AND SDR'S, AND TIMETABLE FOR REFORM FROM AN INTERVIEW OF GISCARD D'ESTAING IN TODAY'S (JULY 27) LONDON TIMES. COPY OF ENTIRE INTERVIEW SENT FPO AIRMAIL TO WIDMAN/TREASURY.

2. FRENCH VIEWS ON INTERNATIONAL MONETARY REFORM:

"THE OBJECTIVES OF THE REFORM CAN BE SUMMED UP AS FOLLOWS: TO SUBSTITUTE FOR THE PRESENT DISORDER AN UNCLASSIFIED

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ORGANIZED WORLD SYSTEM WHICH WILL PROMOTE THE DEVELOP-

MENT OF INTERNATIONAL TRADE, AND WHICH IS APPLIED BY ALL COUNTRIES IN A SPIRIT OF STRICT EQUALITY UNDER THE CONTROL OF AN INTERNATIONAL AUTHORITY.

* THE ACHIEVEMENT OF THESE OBJECTIVES RESTS ON THREE SIMPLE PRINCIPLES:

* FIRST, IT IS NECESSARY TO RETURN TO A SYSTEM OF FIXED PARITIES, THAT IS TO SAY TO A SYSTEM BY VIRTUE OF WHICH COUNTRIES DECLARE THEIR PARITIES TO THE INTERNATIONAL MONETARY FUND, DEFEND IT ON EXCHANGE MARKETS, AND ONLY CHANGE IT WHEN THE POSITION OF THEIR EXTERNAL PAYMENTS JUSTIFIES THIS. IT MEANS SETTING UP A MECHANISM OF ADJUSTMENT WHICH MAKES COUNTRIES WITH A FUNDAMENTAL DEFICIT POSITION WHICH CANNOT BE ADJUSTED BY INTERNAL MEASURES MODIFY THEIR PARITY IN GOOD TIME. SUCH IS THE CONTENT TO BE GIVEN TO THE EXPRESSION "FIXED BUT ADJUSTABLE PARITIES".

* THE APPLICATION OF SUCH A PRINCIPLE PRESUPPOSES A REINFORCED AUTHORITY OF THE IMF. THIS ORGANIZATION WILL INDEED, HAVE TO APPRECIATE-AND NOT ONLY ON THE BASIS OF STATISTICAL INDICATORS, WHICH ARE NECESSARILY ARBITRARY, BUT ON THE BASIS OF AN OVERALL ASSESSMENT-THE BALANCE OF PAYMENTS SITUATION OF THE DIFFERENT COUNTRIES AND THE TYPE OF ADJUSTMENT MEASURES IT CALLS FOR.

* THE SECOND FUNDAMENTAL PRINCIPLE CONSISTS IN SUBMITTING THE CREATION OF INTERNATIONAL LIQUIDITIES TO AN EFFECTIVE INTERNATIONAL CONTROL: AND IN BANNING FROM THE NEW SYSTEM THE POSSIBILITY, FOR SOME COUNTRIES, TO ISSUE THEIR CURRENCY THEMSELVES IN SETTLEMENT OF THEIR DEFICITS. ONE KNOWS, AS A MATTER OF FACT, THAT THIS FACILITY IS WHAT LED THE OLD SYSTEM TO ITS DOWNFALL. THE IMPLEMENTATION OF THIS SECOND PRINCIPLE IMPLIES A CONSOLIDATION OF THE EXCESS DOLLAR BALANCES, AND, FOR THE FUTURE, THE ENFORCEMENT OF AN EFFECTIVE CONVERTIBILITY-THAT IS TO SAY, OF A MECHANISM OF SETTLEMENTS OF THE OUTSTANDING BALANCES. IN THIS RESPECT, PAST EXPERIENCE LEADS ME TO FEEL THAT ONLY A MULTILATERAL MECHANISM-ADMINISTERED BY THE IMF-WOULD BE IN A POSITION TO MAKE CONVERTIBILITY FULLY EFFECTIVE. THERE CAN BE NO QUESTION OF RELYING, ONCE AGAIN, ON A BILATERAL AND OPTIONAL CONVERTIBILITY.

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* THE THIRD PRINCIPLE OF THE REFORM INVOLVES THE CHOICE OF A NUMERAIRE-A UNIT OF REFERENCE AND INSTRUMENT OF PAYMENTS AND OF RESERVE-LIKELY TO GIVE CONFIDENCE TO ALL THE PARTICIPANTS IN THE SYSTEM AND TO AVOID A RECURRENCE OF THE SPECULATIVE CRISES WHICH HAVE UNDERMINED THE KEY CURRENCY OF THE PREVIOUS SYSTEM.

* FINALLY THE REFORM WILL HAVE TO TAKE ADEQUATELY INTO ACCOUNT THE LEGITIMATE INTERESTS OF THE DEVELOPING

COUNTRIES. IT WILL BE NECESSARY TO SEE TO IT, IN THIS
CONNEXION, THAT THESE COUNTRIES ARE ASSURED, THROUGH
THE SETTING UP OF APPROPRIATE MECHANISMS, OF A FLOW OF
ADDITIONAL RESOURCES.

* THE AIM, AS SOMEONE SAID, IS TO SET UP A MONETARY
SYSTEM WHICH CAN INSPIRE CONFIDENCE IN 3,000M MEN, AND
NOT ONE WHICH GLADDENS THE HEARTS OF 300 SPECIALISTS."

3. THE ROLE OF GOLD AND SDR'S"

"GOLD AND SDR'S ARE THE TWO COMPONENTS OF INTERNATIONAL

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LIQUIDITY WHICH ARE CALLED UPON TO PLAY A KEY ROLE.
THIS ROLE WILL BE ALL THE MORE IMPORTANT BECAUSE THE

CREATION OF RESERVE CURRENCIES WILL HAVE TO BE ELIMINATED FROM THE FUTURE SYSTEM. WHATEVER THE PLACE THE TEXT OF THE REFORM GIVES OR DOES NOT GIVE TO IT, THERE IS NO DOUBT THAT GOLD WILL CONTINUE TO PLAY A SIGNIFICANT PART.

* FIRST BECAUSE IT IS A MAJOR COMPONENT OF THE RESERVES OF CENTRAL BANKS. THAT IS A FACT WHICH ONE IS FORCED TO TAKE INTO ACCOUNT. IN ADDITION, BECAUSE IN THE PRESENT STATE OF MONETARY UNCERTAINTY AND INFLATION, IT CONSTITUTES, FOR COUNTRIES WHICH HOLD IT, THE BEST MEANS OF PRESERVING THEIR ASSETS, THAT IS TO SAY, OF MAINTAINING THE VALUE OF NATIONAL SAVINGS ACCUMULATED

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AS A COUNTERPART TO THE TRANSFER OF REAL RESOURCES ABROAD. ONLY GREAT WISDOM IN THE CONDUCT OF MONETARY AFFAIRS, A PERFECT MASTERY OF INFLATION, AND A HIGH DEGREE OF CONFIDENCE IN SDR'S WOULD MAKE IT POSSIBLE, GIVEN TIME, TO MODIFY THIS BASIC PROPOSITION.

* FINALLY, BECAUSE GOLD IS A MEANS OF SETTLEMENT CURRENTLY UTILIZED FOR THEIR INTERNATIONAL PAYMENTS BY CERTAIN SOCIALIST COUNTRIES WHICH, ALTHOUGH OUTSIDE THE IMF, ARE NONE THE LESS IMPORTANT ECONOMIC PARTNERS, GOLD WILL THEREFORE HAVE TO RECOVER ITS "MOBILITY" IN THE FUTURE SYSTEM AND BE FREELY THE OBJECT OF TRANS-ACTIONS, THAT IS TO SAY OF SALES, BUT ALSO OF PURCHASES, BETWEEN CENTRAL BANKS.

* SPECIAL DRAWING RIGHTS SHOULD CONSTITUTE, FOR THEIR PART, THE "VOLUNTARY" ELEMENT OF REGULATION OF THE SYSTEM IN RELATION TO GLOBAL REQUIREMENTS IN LIQUIDITY. AS SUCH, THEY WILL PLAY AN INCREASING PART, IF ONLY THEIR CHARACTERISTICS-AND NOTABLY THEIR POWER TO CONSERVE THEIR VALUE AND THE CONDITIONS UNDER WHICH THEY ARE ISSUED-ARE WISELY DEFINED.

* WITHOUT GOING HERE INTO THE TECHNICAL PROBLEM OF THE DEFINITION OF SDR'S, I WOULD LIKE TO MAKE TWO REMARKS IN ANSWER TO THE SECOND PART OF YOUR QUESTION.

* IN THE FIRST PLACE, WHATEVER THE CONDITIONS OF DEFINITION OF SDR'S MAY BE IN THE FUTURE, THERE WILL EXIST A RELATIONSHIP BETWEEN SDR'S AND GOLD, AN EXPRESSION IN SDR'S OF THE PRICE OF GOLD. IN THIS SENSE, GOLD, WHETHER ONE LIKES IT OR NOT, WILL CONTINUE TO PLAY THE ROLE OF "WITNESS" OF MONETARY VALUES.

* IN THE SECOND PLACE, IT IS OBVIOUS THAT IF SDR'S PLAY A PART AS A CURRENCY IN THE FUTURE SYSTEM-AS MANY HOPE-THEY WILL HAVE TO INSPIRE CONFIDENCE. THEIR DEFINITION WILL THEREFORE HAVE TO BE BASED ON SUFFICIENTLY SOLID ELEMENTS OF REFERENCE SO THAT THE NEW INSTRUMENT COMPARES FAVOURABLY WITH OTHER MONETARY ASSETS. IF SDR'S CAME TO DEPRECIATE AT THE SAME

RHYTHM AS ALL OTHER CURRENCIES, THEIR HOLDERS WOULD BE ONLY TOO ANXIOUS TO GET RID OF THEM IN ORDER TO OBTAIN MORE REMUNERATIVE INSTRUMENTS OF PAYMENT, AND THE PRESENT SPECULATION WOULD START UP AGAIN."

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4. TIMETABLE FOR REFORM OF THE SYSTEM:

"SOME COUNTRIES LIVE IN THE ILLUSION THAT A WHOLESALE REFORM CAN BE DECIDED NEXT SEPTEMBER AT NAIROBI. I DON'T BELIEVE IT. THE MEETING OF MINDS IS NOT SUFFICIENT YET FOR A NEW INTERNATIONAL MONETARY ORDER, CAPABLE OF LASTING SEVERAL DECADES, TO BE WORKED OUT AND AGREED UPON. THE RIGHT MOMENT FOR THE POLITICAL DECISION ON THE REFORM SEEMS TO ME TO BE THE SPRING OF 1974."

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